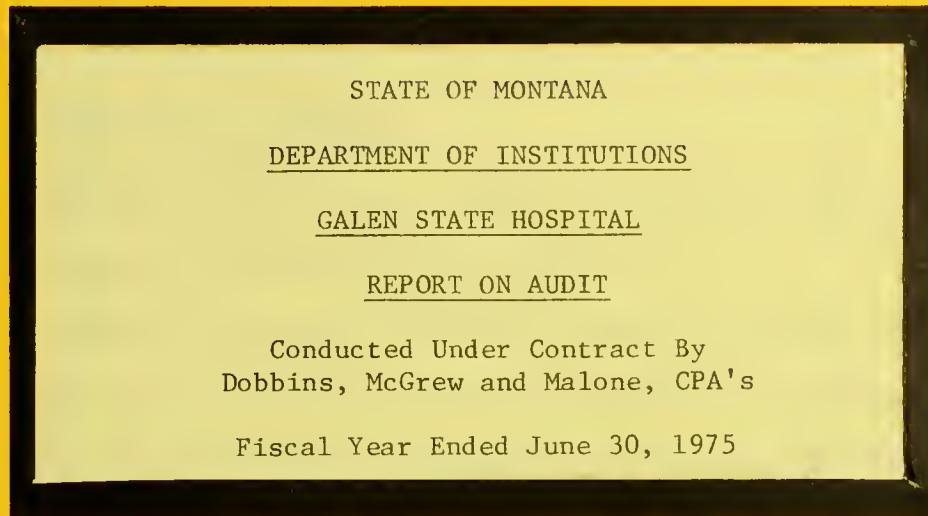


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STATE OF MONTANA
DEPARTMENT OF INSTITUTIONS
GALEN STATE HOSPITAL
REPORT ON AUDIT

Conducted Under Contract By
Dobbins, McGrew and Malone, CPA's

Fiscal Year Ended June 30, 1975



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Galen State Hospital for the year ended June 30, 1975.

The audit was conducted by Dobbins, McGrew and Malone, CPA's of Missoula, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink that reads "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

GALEN STATE HOSPITAL
(An Institution of the State of Montana)

AUDIT REPORT
Fiscal Year Ended June 30, 1975

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ADMINISTRATIVE OFFICIALS

GALEN STATE HOSPITAL

Dr. E. P. Higgins Acting Superintendent

Mr. Joseph Balkovatz Administrator

Mr. James Barkley Chief Accountant

DEPARTMENT OF INSTITUTIONS

Dr. Robert Mattson Director

Geraldine C. Strong Reimbursements Bureau Chief

GALEN STATE HOSPITAL

SUMMARY OF RECOMMENDATIONS

Request that the Department of Administration establish an agency fund to account for the deposit of monies belonging to hospital patients.

Deposit all patient monies into the State Treasury account established within the agency fund.

Comply with the directives from Social and Rehabilitation Services regarding deceased patients' Social Security monies.

Maintain one change fund at the Alcoholism Treatment Center.

Receive cash from the Alcoholism Services Center on a regular timely basis and a receipt be obtained and filed by the Alcoholism Treatment Program.

Make deposits on at least a weekly basis or when the amounts collected exceed \$100 (see Montana Administrative Manual, Section 2:1200.20, Volume II).

Require a daily record of hours worked by each employee and that these be signed by the individual employees' supervisor and the payroll summary be signed by the department head.

Separate the functions of payroll preparation and warrant distribution.

Deduct PERS contributions from the first day of employment for each individual.

Accrue sick leave in accordance with legal and regulatory requirements.

Keep signed payroll rate increase authorizations in employee personnel files.

Recommend that the Department of Administration and State Auditor's office change the Central Payroll Division's procedures in order to effect a more realistic deadline for submission of payroll information in order to eliminate estimated payroll preparation by State agencies.

Include documentation on travel vouchers as to the choice of vehicle whenever a private vehicle is used in conducting State business.

Require that invoices for local purchases be approved and initialed for payment by someone other than the storeskeeper.

Implement a numbering system to provide specific identification of individual capital items.

Establish schedules to provide an objective indication of age, estimated useful life, and value of an item to aid in determining whether or not its disposition is reasonable.

Obtain authorization and update the records prior to transferring property from one location to another and secure written acknowledgement from the transferee that the transaction actually has occurred.

Account for all discrepancies between beginning and ending inventories. Remove all cards for items disposed of and keep in a separate file. Reconcile physical inventories to capital records.

SUMMARY OF RECOMMENDATIONS (Continued)

Establish a dollar value and physical count for all property, plant, and equipment currently on hand, and develop a journal entry to place this on the books to be incorporated into SBAS when the system has developed such capability. Such accounts should be updated as acquisitions and dispositions occur.

Implement an effective system for all dispositions of fixed assets.

Ensure proper examination and authorization of invoices for payment by someone other than the storeskeeper.

Implement written policies and agreements with employees entrusted with State property for their private use and acknowledgment of receipt of such property.

Delete privately-owned items from the records.

Recommend that the Governor's Office of Budget and Program Planning establish more realistic guidelines for budget preparation, providing the flexibility required by agencies in order to bring budgetary estimates into better alignment with their actual needs.

Discontinue the practice of preparing requisitions from invoices.

Establish a central storeskeeping system and a facility for all inventory items, removing the distribution function from control of those who use the items.

Recommend that the Department of Institutions disclose reimbursements collected as revenue for the individual institutions and allocate the collection costs to the institutions in the Statewide Budgeting and Accounting System.

Evaluate on a semiannual basis the drug reimbursement possibility and inform the Department of Institutions of doctors' visits to patients which are reimbursable.

Recommend that the Department of Institutions bill the Medicaid and Medicare programs for doctors' visits and for drugs when it becomes feasible for such reimbursement.

Recommend that the Department of Institutions have clear-cut evidence that a financial examination of all patients has been performed and kept in a permanent file kept on each patient.

Review the feasibility of making the capital improvements needed to qualify uncertified buildings for Medicaid and Medicare requirements.

GALEN STATE HOSPITAL

COMMENTS AND RECOMMENDATIONS

General History and Description

Galen State Hospital was created by Chapter 125, Laws of 1911. The hospital, which is located off U.S. Highway 10, twelve miles south of Deer Lodge, Montana, had its first facilities constructed in 1912 and admitted its first patient on January 30, 1913. Today the hospital is comprised of many older, yet well constructed and well maintained buildings and is situated on 560 acres of land of which 480 acres are leased from the State of Montana.

The State Pulmonary Disease Hospital, as Galen is officially known, is administered within the Department of Institutions with management control provided by the superintendent. The major responsibilities of the hospital are providing effective care, treatment, and rehabilitation to patients with chest diseases, particularly tuberculosis and silicosis, to the mentally retarded and to the aged. In addition, the hospital is responsible for the operation of the alcoholism services center and the center's related functions.

According to the hospital's records, the average daily census was 206 excluding alcoholic patients. However, the average length of stay varied depending on the type of patient. For the general hospital and alcoholic patients, the average length of stay was 40 days, while custodial patients' average stay was over five years, and retarded patients' average stay was over ten years. Also, the alcoholism services center admitted 1,100 patients and discharged 1,032 patients during the 1974-75 fiscal year.

Legislative appropriations and budget amendments provided to carry out the hospital's responsibilities for the fiscal year 1974-75 totaled \$3,236,688. This total was comprised of \$2,230,768 from the general fund and \$1,005,920 from the Federal Revenue Sharing Fund (Exhibit C). As reported in the hospital's records, expenditures from these sources totaled \$2,148,563 and \$1,005,234 respectively (see Exhibit C for detail). Hospital expenditures are accounted for in four different programs: administration, care and treatment, general services and physical plant,

and alcoholism services (see Supplemental Schedule I for detail). There are 33 sub-programs within the latter three major programs. These sub-programs are for the identification of various cost centers used in the preparation of Medicaid and Medicare cost reports.

Fiscal and Compliance Weaknesses

As a part of our examination, we reviewed and tested the hospital's records and procedures for compliance with statutory and administrative requirements.

We also reviewed and tested the hospital's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived, and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

Inherent limitations which should be recognized in considering the potential effectiveness of any system of internal accounting control include errors resulting from misunderstanding of instructions, mistakes of judgment, carelessness and other personal factors, or circumvention of control procedures by intent of management or collusion. Further, projections of internal accounting control evaluations are risky because changes in conditions may render procedures inadequate and the degree of compliance with such procedures may deteriorate.

COMMENTS AND RECOMMENDATIONS (Continued)

related liability are not reported in the financial statements. According to Section 79-410(9), R.C.M. 1947, an agency fund was established which is to be used to account for monies held and disbursed by the State as custodian.

Since the amount in the patient accounts at June 30, 1975, was approximately \$68,000 and total receipts and disbursements during the year were over \$120,000, there should be an agency fund established within the SBAS. Along with the agency fund, the hospital could continue to keep manually prepared records of individual patient account balances.

A contingent revolving fund bank account was maintained in a Deer Lodge bank and originated by an advance of \$3,000 from the State Treasurer. At the end of a month, a list of claims based on amounts disbursed from this account was drawn and a warrant transmittal form was prepared. After the necessary procedures had been followed, a state warrant was issued and subsequently deposited to reimburse the revolving fund account to its original balance. The function of this account was to have available a ready source of funds to pay claims presented on demand.

At the beginning of the 1974-75 fiscal year, the State Legislature decided after some discussion to place the primary location for the Alcoholism Treatment Services Center at the Galen State Hospital instead of at the State Hospital at Warm Springs. Another bank account transferred to the hospital with the move of the Alcoholic Treatment Program. The purpose of this bank account was to receive the monies derived from vending machine and magazine sales and to disburse amounts to purchase vending machine items such as cigarettes and candy and newspapers. This bank account has since been closed.

Recommendation:

We recommend that the hospital:

1. Request that the Department of Administration establish an agency fund to account for the deposit of monies belonging to hospital patients.

COMMENTS AND RECOMMENDATIONS (Continued)

2. Deposit all patient monies into the State Treasury account established within the agency fund.

Deceased Patients' Monies

Patients also have money in their accounts at the time of their death. This situation creates problems for the officials of the hospital regarding what to do with deceased patients' monies derived from Social Security. According to Social and Rehabilitation Services, the monies should be turned over to the Deer Lodge County Administrator. At the time of our examination, these monies were held in the patients' bank account.

Recommendation:

We recommend that the hospital comply with the directives from Social and Rehabilitation Services regarding deceased patients' Social Security monies.

Cash on Hand

Cash on hand is comprised of many various cash funds. The main office has a petty cash fund of \$50 while around the hospital there are many cash funds. There is cash received from the crafts program and this cash is subsequently deposited in a State depository along with cash received from meals sold to nonemployees of the hospital. This money is usually deposited on a monthly basis, depending on the amounts received. The other cash funds are at the Alcoholism Treatment Services Center. There are three change funds, a petty cash fund, and three separate cash on hand funds which are derived from vending machine and newspaper sales. At the time of our review, the total cash counted at the Alcoholism Treatment Center was \$227.10. Internal control over this cash on hand is weak in that the various funds are in different locations, more than one person has access to this cash at any given time, and there are no cash receipts being recorded on the sales. For example, there is a change fund and cash from sales at the nurses' station and similar

cash funds in the office of the director of the Alcoholic Program. Since there were no cash receipts being used, the amounts deposited in the bank constitute the only available evidence of cash received from sales.

Recommendation:

We recommend that the hospital:

1. Maintain one change fund at the Alcoholism Treatment Center.
2. Receive cash from the Alcoholism Services Center on a regular timely basis and a receipt be obtained and filed by the Alcoholism Treatment Program.
3. Make deposits on at least a weekly basis or when the amounts collected exceed \$100 (see Montana Administrative Manual, Section 2:1200.20, Volume II).

PERSONAL SERVICES

On the whole, payroll procedures appeared to be excellent and conscientiously applied. However, there are a few weaknesses which bear mention.

The payroll is prepared every other week on the basis of hourly time summaries completed each pay period by departmental supervisors. Employees are paid an hourly rate based upon their classification according to the State Personnel Division, as well as differentials and longevity rates.

There is currently no policy in effect requiring that time sheets be signed either by supervisors or by employees. Also, since these time sheets are prepared in summary form by the supervisors on a periodic basis, omissions, errors and corrections as to number and type of hours reported (i.e. sick leave, regular, holiday, overtime) are common. If hours were reported on a daily basis and signed by each employees' supervisor at the time, this problem should be alleviated. Summarization and approval by the department head each pay period would then not only be easier, but would also be documentarily supported.

Warrant Distribution

Effective internal control over payrolls includes separation of the functions of payroll preparation and warrant distribution.

Currently, both functions are performed by the payroll clerk. In our opinion, this practice centers too much control in the hands of one individual.

Payroll Deductions and Accrued Benefits

State law requires that PERS (Public Employees Retirement System) deductions be made from the first day of employment. Because of the large employee turnover, the institution has made it a practice on some employees to deduct initial PERS contributions only after 30 days of employment. From the standpoint of expediency, this is a good practice, but it does violate the State's mandate.

Also, accrued sick leave should be credited each pay period in accordance with Section 59-1008, R.C.M. 1947 and Section 1-0304.74 of the Montana Administrative Manual. The institution has accrued sick leave on a montly basis, again for expediency. The payroll clerk stated that a directive has been issued waiving this requirement, but it could not be found.

Written Employment Agreements

Initial employment authority is apparently enjoyed by the department heads, with final approval exercised by the administrator of the hospital. There is, however, no written documentation to support these authorities and it is thus unclear where the ultimate responsibility and authority lie.

Pay rate and status changes are implemented in two events: (1) automatic upon anniversary dates, and (2) upon official notice from the State for general increases. Documentation is good as to individual amounts paid, but authority and approval for such amounts is not readily apparent. For example, there is no formally signed authorization in each individual's file to support rate increases.

COMMENTS AND RECOMMENDATIONS (Continued)

Rather, increases are merely noted on the employee's summary card and the source documentation for such increases consists of rate schedules provided by the State. In order to verify the propriety of the rates, one must carefully analyze the entire file in an attempt to determine the proper classification for reference to the rate schedule. The information and authorizations are maintained in the Central Payroll Division office in Helena, however.

Estimated Payroll Preparation

As was mentioned earlier, numerous adjustments are made to subsequent payrolls due to errors and omissions in reporting the number and classification of hours worked by individuals.

The primary reason for this problem is the Central Payroll Division's Monday deadline for payroll information pertaining to the pay period ending the preceding Friday. In order to meet this deadline, the payroll clerk and department heads must anticipate the hours which will be worked for the last few days of the pay period and, of course, mistakes are the natural result of such estimates. If an employee terminates during these estimated days, the institution is then faced with the prospect of recovering the overpayment from that individual and making the necessary accounting adjustments. (However, this has not occurred to date because the payroll clerk has been able to call Helena in time to stop a check from being issued.)

This system is highly undesirable and inefficient; yet, it is the only workable solution for the institution in order to meet the Monday deadline.

Thus, the problem is given rise by the deadline itself, and our recommendation directs itself to the Central Payroll Division rather than to Galen State Hospital.

Recommendation:

We recommend that the hospital:

COMMENTS AND RECOMMENDATIONS (Continued)

1. Require a daily record of hours worked by each employee and that these be signed by the individual employees' supervisor and the payroll summary be signed by the department head.
2. Separate the functions of payroll preparation and warrant distribution.
3. Deduct PERS contributions from the first day of employment for each individual.
4. Accrue sick leave in accordance with legal and regulatory requirements.
5. Keep signed payroll rate increase authorizations in employee personnel files.

We recommend that the Department of Administration and State Auditor's office change the Central Payroll Division's procedures in order to effect a more realistic deadline for submission of payroll information in order to eliminate estimated payroll preparation by State agencies.

Expenditures

Control, classification, and reporting of expenditures appears to be reasonable and sound. The few deficiencies noted in this regard are as follows:

1. Travel: Whenever possible, it is the institution's practice to comply with State policy that State, rather than private vehicles be used for travel in connection with State business. Our tests revealed that most of the time private vehicles are used. The reason given for this is that the institution tries to keep one vehicle on the grounds for emergency ambulance use, and the other vehicle suitable for most State travel is constantly being used. Thus, a State vehicle is not generally available for most employees.

COMMENTS AND RECOMMENDATIONS (Continued)

Documentation for this was not included, however, stating the reason for use of a private vehicle.

2. Expenditure Approval: Expenditure approval for local purchases is performed by the storeskeeper who receives the majority of purchases delivered to the institution. Other authorization consists of the signatures of the individuals authorized to sign the transfer warrant claims and the requisitions.

Recommendation:

We recommend that the hospital:

1. Include documentation on travel vouchers as to the choice of vehicle whenever a private vehicle is used in conducting State business.
2. Require that invoices for local purchases be approved and initialed for payment by someone other than the storeskeeper.

Fixed Assets

Our examination of control, recording, and reporting procedures over fixed assets showed this to be an area of considerable weakness.

The institution has a tremendous capital outlay, but records keeping has been poor. What has been done in this regard has been due largely to the industrial (and cost-oriented) background of the institution's accountant, and to the requirements of third-party-reimburseurs such as Medicare and Medicaid.

Our tests indicate that physical control over fixed assets is seriously deficient and that dollar value cost figures are unreliable. It was thus impossible to arrive at a reasonable estimate of the amount of money represented in this regard.

Acquisition of fixed assets is subject to fairly effective control. Expenditures are made within budgetary constraints and a sound separation of duties exists between the receiving and recording functions. (However, as in our

COMMENTS AND RECOMMENDATIONS (Continued)

observations of expenditures approval, the storeskeeper both receives the items and approves payment of invoices, subject to administrative review and authorized signature on the transfer warrant claim.)

One problem in the purchasing function, however, is inherent in the system itself. Budgets for capital expenditures are prepared three years in advance. Flexibility in prices is provided by the system, but not in the items themselves. Thus, we found that the items actually purchased bore little resemblance to those itemized in the original budget request.

This is not a violation of legal or administrative regulations. However, this is a serious weakness in the system, as it encourages inflated estimates of projected capital requirements by department heads in order to cover contingencies. Also, there is little use for capital budgets which are not subsequently followed. Responsibility by administrative personnel is undermined when the system allows the substitution of funds appropriated for another expenditure classification.

From the point of receipt and initial recording of the assets, control and accountability degenerates. Physical inventories are taken annually; however, it is difficult to ascertain that these are accurate, in view of the fact that assets lose their specific identities as soon as they are placed on the grounds. No numbers are currently assigned, so items are identified merely in generally descriptive terms, such as "100 folding chairs."

Our tests indicated that many items cannot be specifically located. This affords considerable opportunity for substitution and theft. Also, disposition and transfer of assets is poorly documented and controlled.

A large amount of capital items are located in private residences. These residences are provided free of charge to doctors and administrative personnel as an employment incentive. Control over these assets deteriorates once the item has been placed in the house. No written agreements exist regarding the use of these items, nor of their receipt.

COMMENTS AND RECOMMENDATIONS (Continued)

Our inspection of the records which are kept for fixed assets revealed records on privately-owned items as well. We see no reason for this.

The administration indicates their intent to improve procedures for control of fixed assets. Negligence in this respect can be directly attributed to the fact that standard cost accounting techniques for capital expenditures are not implemented in governmental accounting systems. It is our understanding that the Statewide Budgeting and Accounting System is currently being reviewed with an eye toward remedying this deficiency. Until this is accomplished, little can be done to enforce better accountability in this vital area of operating efficiency.

Recommendation:

We recommend that the hospital:

1. Implement a numbering system to provide specific identification of individual capital items.
2. Establish schedules to provide an objective indication of age, estimated useful life, and value of an item to aid in determining whether or not its disposition is reasonable.
3. Obtain authorization and update the records prior to transferring property from one location to another and secure written acknowledgement from the transferee that the transaction actually has occurred.
4. Account for all discrepancies between beginning and ending inventories. Remove all cards for items disposed of and keep in a separate file. Reconcile physical inventories to capital records.
5. Establish a dollar value and physical count for all property, plant, and equipment currently on hand, and develop a journal entry to place this on the books to be incorporated into SBAS

COMMENTS AND RECOMMENDATIONS (Continued)

when the system has developed such capability. Such accounts should be updated as acquisitions and dispositions occur.

6. Implement an effective system for all dispositions of fixed assets.
7. Ensure proper examination and authorization of invoices for payment by someone other than the storeskeeper.
8. Implement written policies and agreements with employees entrusted with State property for their private use and acknowledgment of receipt of such property.
9. Delete privately-owned items from the records.

We recommend that the Governor's Office of Budget and Program Planning establish more realistic guidelines for budget preparation, providing the flexibility required by agencies in order to bring budgetary estimates into better alignment with their actual needs.

Inventories

Most inventories are recorded on a perpetual basis. Food inventories are physically counted once a month and linen and janitorial supplies are counted before each order requisition.

Most items are ordered by the departments using them, but a central stores-keeping system is utilized only for food, linen, and janitorial supplies.

A sound separation of the purchasing, receiving, and recording functions exists in most instances. However, there are two major areas of weakness.

Approximately once per week the regular storeskeeper does not perform his customary duties of receiving all purchased items, because teamsters pick up the items and deliver them directly to the ordering departments. The department heads sign for the delivery and the invoice is forwarded to the storeskeeper, who then prepares the requisition from the information on the invoice.

COMMENTS AND RECOMMENDATIONS (Continued)

This practice constitutes a breakdown in the internal control, because the independently prepared requisition generally serves as a cross check for the invoice. Preparing the requisition from the invoice defeats this control procedure. Too much reliance is thus placed upon the initialing by the department heads to acknowledge receipt of the items.

The second major weakness in the inventory procedures is the practice of allowing maintenance personnel to "sign" for materials and tools used in their work. Often, these employees are busily engaged in the task at hand and the recording of items removed from inventory is done after the job itself is finished. Thus, the likelihood is great that such removals will not be recorded at all, whether by oversight or intent, and that those distributions which are recorded will be inaccurate.

Recommendation:

We recommend that the hospital:

1. Discontinue the practice of preparing requisitions from invoices.
2. Establish a central storeskeeping system and a facility for all inventory items, removing the distribution function from control of those who use the items.

REIMBURSEMENTS

As a reduction of the burden on the taxpayers of the State of Montana, part of the costs of caring for and treating patients are reimbursed to the State. The reimbursements are in the form of Medicare, Medicaid, private health insurance, and patients' or patients' guardians' monies. Reimbursements from these groups are collected by the Department of Institutions' Reimbursement Bureau, which also makes similar collections for other institutions. Approximately \$1,076,000 was collected by the Reimbursement Bureau during fiscal year 1974-75 for Galen State Hospital.

COMMENTS AND RECOMMENDATIONS (Continued)

Reimbursement revenues which are the result of providing care and treatment to patients in the individual institutions are currently being reported as revenues in the Statewide Budgeting and Accounting System (SBAS) for the Department of Institutions rather than the individual institution. Also reported in this manner are the expenses incurred in collecting these reimbursements.

Recommendation:

We recommend that the Department of Institutions disclose reimbursements collected as revenue for the individual institutions and allocate the collection costs to the institutions in the Statewide Budgeting and Accounting System.

Unbilled Services

The Reimbursement Bureau has not billed for all services for which Medicaid and Medicare reimbursements could be obtained. Two of the most important unbilled services which could be billed are doctors' visits and drugs. Doctors' visits presents no major administrative or information problem and is currently being studied by the Reimbursement Bureau along with the hospital. However, the administrative and information problems with drug reimbursements are major. In the past, it has been the opinion of the management of the hospital that cost of adopting certain administrative procedures would outweigh the benefits derived therefrom. However, in fiscal year 1974-75, approximately \$37,600 was expended on drugs. Although only a percentage of this \$37,600 could be reimbursed, the amount of possible reimbursement should be evaluated on at least a semiannual basis to determine if it would be economically feasible to bill for drugs.

Recommendation:

1. We recommend that the hospital evaluate on a semiannual basis the drug reimbursement possibility and inform the Department of Institutions of doctors' visits to patients which are reimbursable.

2. We recommend that the Department of Institutions bill the Medicaid and Medicare programs for doctors' visits and for drugs when it becomes feasible for such reimbursement.

Private Billings

The Department of Institutions is required under Section 80-1603, R.C.M. 1947 to charge each patient or responsible party for each patient for all the care and treatment provided by the hospital. The law provides that the department conduct financial investigations and assess the patient or responsible party based upon their ability to pay. Towards this end, the Reimbursement Bureau has a financial statement either completed by the patient or a responsible party. However, if an investigation has already been done by an eligibility technician of the Department of Social and Rehabilitation Services and the patient has no private sources of reimbursement--either personal money, monies from responsible parties, or private health insurance--then no financial investigation will be performed by the Reimbursement Bureau. Consequently, these patients' files will not contain evidence that a complete investigation has been made. In these cases, it has been noted that a second investigation on these patients would be inefficient. Since the information obtained by an eligibility technician of Social and Rehabilitation Services is confidential and since the Reimbursement Bureau cannot invade that privacy, and since a second financial investigation of a patient would be uneconomical, the Reimbursement Bureau should obtain a letter from the eligibility technician indicating that an examination has been done and the results of the said examination. This copy should be placed into a permanent file kept on each patient.

Recommendation:

We recommend that the Reimbursement Bureau have clear-cut evidence that a financial examination of all patients has been performed and kept in a permanent file kept on each patient.

Building Standards

As of January 1, 1975, two of the hospital's units were declared uncertified for Medicaid and Medicare. Since Medicaid and Medicare regulations require that health care buildings meet certain standards and since there are two units which have not met these standards at the hospital, there is a resulting revenue loss. According to unaudited information obtained from the Reimbursement Division, at least \$12,694.81 is being lost monthly from one of these units. Also, the cost to upgrade this facility has been estimated to be \$140,000 which indicates a realistic and worthwhile goal and project to attempt.

Recommendation:

We recommend that the hospital review the feasibility of making the capital improvements needed to qualify uncertified buildings for Medicaid and Medicare requirements.

Legal and Administrative Compliance and Control

In addition to the specific situations we have observed in connection with the balance sheet and expenditure items, we noted the following with respect to effectiveness and compliance with regulatory requirements.

Contracts for outside medical services from various doctors are signed and the agreements stipulate the payment of fees according to the rate schedule contained in the Montana Physicians Service Schedule.

The hospital is doing a commendable job of staying within appropriation limits and the prescribed expenditure procedures designated by statute. In addition, the budget preparation process includes input from the department heads, doctors, and the general services and physical plant manager along with the administrator and chief fiscal accountant.

COMMENTS AND RECOMMENDATIONS (Continued)

Conclusion

The contents of this report have been reviewed with the superintendent and pertinent members of his staff along with a representative of the Department of Institution's Reimbursement Bureau. The institution's full written response follows the financial statement section of our report. We would like to extend our appreciation for the cooperation extended by all of those involved during the course of our engagement.

Dobbins McLean + Malone

December 30, 1975
Missoula, Montana

Dobbins, McGrew & Malone

Certified Public Accountants

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Montana Department of Certified Public Accountants • Montana Society of Certified Public Accountants

State of Montana
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

We have examined the financial statements of the various funds listed in the foregoing table of contents of the Galen State Hospital (an institution of the State of Montana) for the year ended June 30, 1975. Our examination was made in accordance with generally accepted auditing standards and the "Audit Guide and Standards for Revenue Sharing Recipients" issued by the Office of Revenue Sharing, U. S. Department of the Treasury, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Galen State Hospital has not maintained a complete record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in the accompanying financial statements.

The accompanying financial statements do not include approximately \$1,076,000 in revenues nor the expenditures incurred in the collection of the omitted revenue. Also, the accompanying financial statements do not report approximately \$68,000 held in trust by the hospital nor the receipts and disbursements associated with this money. The disclosure of these items is required by generally accepted accounting principles.

In our opinion, because of the material effect of the matters discussed in the preceding paragraph, the aforementioned financial statements do not present fairly the financial position of the general fund at June 30, 1975, nor the results of its operations for the year then ended. However, in our opinion, the aforementioned financial statements present fairly the financial position of the Interest and Income (FPRA) fund and the Federal Revenue Sharing (FPRA) fund at June 30, 1975, and their results of operations for the year then ended in conformity with generally accepted principles applied on a basis consistent with that of the preceding year.

The accompanying supplemental schedule listed in the table of contents is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. This information has been subjected to the tests and other auditing procedures applied in the examination of the

financial statements mentioned above and, in our opinion, because of the effects of the material matters discussed in the second preceding paragraph, is not fairly stated in all material respects in relation to the financial statements taken as a whole.

Dobkins McLean + Malone

December 30, 1975
Missoula, Montana

GALEN STATE HOSPITAL
(An Institution of the State of Montana)

Combined Balance Sheet
June 30, 1975

	<u>General Fund</u>	<u>Interest and Income (FPRA)</u>	<u>Federal Revenue Sharing (FPRA)</u>
ASSETS			
Revolving Fund Cash	\$ 3,000		
Cash In State Treasury		\$ 3,062	
Accounts Receivable - Dishonored Checks	36		
Encumbered Appropriation	128,492	—	\$ 622
Total assets	<u>\$ 131,528</u>	<u>\$ 3,062</u>	<u>\$ 622</u>
LIABILITIES AND FUND BALANCE			
Accrued Support Expenditures	\$ 128,373		\$ 622
Reserve For Contingent Revolving Account	3,000		
Active Cancelled Warrant Clearing	119		
Reserve For Dishonored Checks	36		
Fund Balance, Exhibit D	—	<u>\$ 3,062</u>	—
Total liabilities and fund balance	<u>\$ 131,528</u>	<u>\$ 3,062</u>	<u>\$ 622</u>

The accompanying notes and schedule are an integral part of these financial statements.

GALEN STATE HOSPITAL
(An Institution of the State of Montana)

Combined Statement of Revenue - Budget and Actual
Fiscal Year Ended June 30, 1975

	<u>Budget</u>	<u>General Fund</u>	<u>Interest and Income (FPRA)</u>	<u>Over (Under) Budget</u>
Rental Housing Income	\$ 17,790	\$ 21,123		\$ 3,333
Land Lease Income		1,417	\$ 50	1,467
Interest Income			669	669
Miscellaneous Duplicating	—	15	—	15
Total	\$ <u>17,790</u>	\$ <u>22,555</u>	\$ <u>719</u>	\$ <u>5,484</u>

The accompanying notes and schedule are an integral part of these financial statements.

GALEN STATE HOSPITAL
(An Institution of the State of Montana)

Combined Statement of Expenditures Compared With Appropriations
Fiscal Year Ended June 30, 1975

	<u>1974 - 1975 Appropriations</u>	<u>Budget Amendments</u>	<u>Total Available</u>	<u>Expenditures</u>	<u>Unexpended Balance</u>
<u>GENERAL FUND</u>					
Administration Program					
Personal services	\$ 113,006	\$ 12,053	\$ 125,059	\$ 125,774	\$ (715)
Operating expenses	-	-	-	(2,243)	2,243
Total per program	<u>113,006</u>	<u>12,053</u>	<u>125,059</u>	<u>123,531</u>	<u>1,528</u>
Care And Treatment Program					
Personal services	538,145	236,925	775,070	751,372	23,698
Operating expenses	131,721	-	131,721	85,702	46,019
Capital expenditures	-	-	-	2,818	(2,818)
Total per program	<u>669,866</u>	<u>236,925</u>	<u>906,791</u>	<u>839,892</u>	<u>66,899</u>
General Services And Physical Plant Program					
Personal services	165,356	106,587	271,943	437,563	(165,620)
Operating expenses	378,972	21,470	400,442	231,838	168,604
Capital expenditures	17,000	-	17,000	7,919	9,081
Total per program	<u>561,328</u>	<u>128,057</u>	<u>689,385</u>	<u>677,320</u>	<u>12,065</u>
Alcoholism Services					
Program					
Personal services	-	414,933	414,933	439,243	(24,310)
Operating expenses	-	92,596	92,596	66,605	25,991
Capital expenditures	-	2,004	2,004	1,972	32
Total per program	<u>-</u>	<u>509,533</u>	<u>509,533</u>	<u>507,820</u>	<u>1,713</u>
Totals for general fund	\$ <u>1,344,200</u>	\$ <u>886,568</u>	\$ <u>2,230,768</u>	\$ <u>2,148,563</u>	\$ <u>82,205</u>

FEDERAL REVENUE SHARING (FPRA)

Administration Program					
Personal services	\$ 12,771	\$ -	\$ 12,771	\$ 2,554	\$ 10,217
Operating expenses	20,789	-	20,789	29,487	(8,698)
Capital expenditures	2,360	-	2,360	3,204	(844)
Total per program	<u>35,920</u>	<u>-</u>	<u>35,920</u>	<u>35,245</u>	<u>675</u>
Care And Treatment Program					
Personal services	343,279	-	343,279	474,994	(131,715)
Operating expenses	131,721	-	131,721	-	131,721
Total per program	<u>475,000</u>	<u>-</u>	<u>475,000</u>	<u>474,994</u>	<u>6</u>
General Services And Physical Plant Program					
Personal services	475,000	-	475,000	474,995	5
Total per program	<u>475,000</u>	<u>-</u>	<u>475,000</u>	<u>474,995</u>	<u>5</u>
Alcoholism Services					
Program					
Personal services	-	-	-	12,460	(12,460)
Operating expenses	-	20,000	20,000	4,412	15,588
Capital expenditures	-	-	-	3,128	(3,128)
Total per program	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Totals for revenue sharing fund	\$ <u>985,920</u>	\$ <u>20,000</u>	\$ <u>1,005,920</u>	\$ <u>1,005,234</u>	\$ <u>686</u>

The accompanying notes and schedule are an integral part of these financial statements.

GALEN STATE HOSPITAL
(An Institution of the State of Montana)

Combined Statement of Changes in Fund Balance
Fiscal Year Ended June 30, 1975

	<u>General Fund</u>	<u>Interest and Income (FPRA)</u>	<u>Federal Revenue Sharing (FPRA)</u>
Balance, July 1, 1974		\$ 2,307	
Receipts And Additions			
Appropriation from general fund	\$ 2,230,768		
Revenue sharing trust fund			\$ 1,005,920
Revenue and income, Exhibit B	22,555	719	
Revenue adjustments		36	
Total beginning balance and additions	<u>2,253,323</u>	<u>3,062</u>	<u>1,005,920</u>
Deductions			
Expenditures, Exhibit C	2,148,563	-	1,005,234
Revenue and income deposited in the State general fund	22,555	-	
Reversions	<u>82,205</u>	<u>-</u>	<u>686</u>
Total deductions	<u>2,253,323</u>	<u>-</u>	<u>1,005,920</u>
Balance, June 30, 1975	<u>\$ -</u>	<u>\$ 3,062</u>	<u>\$ -</u>

The accompanying notes and schedule are an integral part of these financial statements.

GALEN STATE HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 1975

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The various funds' books are maintained on the modified accrual basis of accounting. Modified accrual is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received in cash. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by the law." (Montana Administrative Manual, 2-0240.40)

Inventories

The supplies of the various funds are treated as expenditures when incurred and consequently there is no formal inventory of supplies.

General Fixed Assets And Depreciation

General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. Such assets are not capitalized at cost in a general fixed assets group of accounts and depreciation is not provided on general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of unused vacation and sick pay by employees are not recorded. The related expenditure is recorded when paid. Permanent employees are allowed to accumulate and carryover a maximum of two years vacation into a new calendar year. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave (on a 25% basis) are redeemed in cash. The amount of liability associated with unused, accumulated vacation and sick leave at June 30, 1975, was not readily determinable.

Retirement Plans

Employees at Galen State Hospital are covered by Public Employees Retirement System. This contributory retirement plan involves matching amounts paid by the eligible employee and employer. The Galen State Hospital contributions into the plan for the fiscal year ended June 30, 1975, were \$106,124.

Note 1 - Accrued Support Expenditures

Accrued support expenditures are obligations of the hospital and are current at year end. Included within the accrued support expenditures is approximately \$92,500 in payroll, payroll deductions, and payroll taxes.

Note 2 - Contingent Liabilities

At the present time there is one law suit pending and one Tort Claim on file against the Galen State Hospital and the State of Montana. The insurance company for the State has turned representation on the civil litigation, filed in Silver Bow County, over to a Butte law firm. No opinion has been received from counsel regarding the outcome of this litigation which has a prayer of \$150,000. Also, there has been no other action concerning the Tort Claim. The claim is for \$250,000 in general damages plus \$50,000 for medical bills and loss of earnings.

GALEN STATE HOSPITAL

Statement of Expenditures By Program
Fiscal Year Ended June 30, 1975

	Administration Program	Care and Treatment Program	General Services and Physical Plant Program	Alcoholism Services Program	Total
Personal Services					
Salaries	\$ 110,222	\$ 1,043,050	\$ 775,243	\$ 379,044	\$ 2,307,559
Employees' benefits	<u>18,105</u>	<u>183,316</u>	<u>137,315</u>	<u>72,660</u>	<u>411,396</u>
Total	<u>128,327</u>	<u>1,226,366</u>	<u>912,558</u>	<u>451,704</u>	<u>2,718,955</u>
Operating Expenses					
Contracted services	5,814	6,255	1,101	8,139	21,309
Supplies and materials	3,849	77,390	123,097	37,659	241,995
Communications	10,715	-	-	2,000	12,715
Travel	1,248	1,846	367	1,052	4,513
Rent	3,307	21	-	645	3,973
Repairs and maintenance	1,617	5	25,755	314	27,691
Utilities	-	-	81,453	20,943	102,396
Other expenses	<u>694</u>	<u>185</u>	<u>65</u>	<u>265</u>	<u>1,209</u>
Total	<u>27,244</u>	<u>85,702</u>	<u>231,838</u>	<u>71,017</u>	<u>415,801</u>
Equipment	<u>3,204</u>	<u>2,818</u>	<u>7,919</u>	<u>5,100</u>	<u>19,041</u>
Total expenditures by program	\$ <u>158,775</u>	\$ <u>1,314,886</u>	\$ <u>1,152,315</u>	\$ <u>527,821</u>	\$ <u>3,153,797</u>

AGENCY RESPONSE

State of Montana

Department of Institutions



APPENDIX 1

BOARD MEMBERS

ZELLA A. JACOBSON, GRFA
ELDON E. KUHN, BILL NIS
WILL S. MCKEON, MALTA
ROBERT J. FALLO, RALISPELL
JOHN W. STRIZCH, M.D., HELENA



Helena, 59601

February 10, 1976

FEb 10 1976

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

RECD. JUDG. 02

Gentlemen:

We have reviewed the audit report prepared by Dobbins, McGrew and Malone on Galen State Hospital.

The report provides a very welcome service and is sincerely appreciated.

The auditor's report analyzes expenditures by expenditure identification and therefore reflects overexpenditure in some categories. Reconciliation of expenditures indicates conformity with total appropriations. Compliance with total appropriations and with total SBAS Management regulations is reflected in the agency response.

Our response to the recommendations is attached.

Sincerely,

A handwritten signature in black ink, appearing to read "Cecilie".

Robert H. Mattson *FDC*
Director

RHM/jn

Enclosure

CALEN STATE HOSPITAL

	<u>Reference to Audit Page No.</u>	<u>Page</u>
AUDIT REPORT	22	1
<u>Financial Statements</u>		
Statement of General Fixed Assets	2	
Schedule of General Fixed Assets by Location	3	
Agency Fund Balance Sheet	4	
Schedule of Funds Held for Benefit of Residents	5	
Combined Statement of Revenue - Budget and Acutal	25	6
Combined Statement of Expenditures Compared with Appropriations	26	7
Agency Notes		9
Cash in Bank	6	10
Deceased Patient Monies	8	10
Cash on Hand	8	11
Personal Services	9	11
Warrant Distribution	10	
Payroll Deductions and Accrued Benefits	10	
Written Employment Agreements	10	
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Expenditures	12	13
Travel	12	
Expenditure Approval	13	
Fixed Assets	13	14
Inventories	16	17
Reimbursements	17	18
Unbilled Services	18	
Private Billings	19	
Building Standards	20	
Legal and Administrative Compliance and Control	20	

AUDIT REPORT
Page 22

Comments:

The institution feels there is control over fixed assets. Records are available to verify all such assets at the institution. Periodic inventories have been taken annually, and perpetual records have been maintained. Thereby the institution has prepared a Statement of General Fixed Assets and a Schedule of General Fixed Assets by location which are enclosed on the following pages.

Due to the limited time available, a Statement of Changes in General Fixed Assets is not presented but could be compiled.

The auditor has issued an adverse opinion on the general fund financial statements because of non-inclusion of two items:

1. Reimbursement expenditures and revenue and
2. Agency fund transactions.

In compliance with legal mandate in regard to reimbursement revenue and due to lack of legislative appropriation for reimbursement expenditures in the institution, and because the agency does maintain adequate records and accountability for patient accounts and thereby its activities could be included in the financial statements, the Department of Institutions feels the adverse opinion is without justification.

Reimbursement revenue inclusion is addressed by the agency in its response to the auditor's recommendation on Page 18. An Agency Fund Balance Sheet is included in this agency's response.



Galen State Hospital

R. F. D. NO. 1 — GALEN
DEER LODGE, MONTANA 59722
—
TEL: (406) 693-2281

STATEMENT OF GENERAL FIXED ASSETS AS OF JUNE 30, 1975

FIXED ASSETS

Land	\$ 324,502.15
Buildings	3,943,095.77
Machinery & Appliances	385,470.32
Hand Tools & Petty Equipment	96,137.51
Furniture & Fixtures	265,962.65
Library & Reference Books	2,243.85
Scientific Apparatus	10,081.45
Linen, Silver & China	8,601.07
Improvements Other Than Buildings	<u>296,929.39</u>
TOTAL GENERAL FIXED ASSETS	<u>\$5,333,024.16</u>

SOURCE OF FUNDS TO ACQUIRE FIXED ASSETS

State Funds	\$1,345,260.39
Various Sources ¹	3,943,095.77
Donations	<u>44,668.00</u>
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	<u>\$5,333,024.16</u>

1 Due to the age of most of the buildings and lack of existing documentation as to sources of funds, an exact breakdown of the source of that amount is not available.

GALEN STATE HOSPITAL

Schedule of General Fixed Assets

By Location

As of June 30, 1975

DEPARTMENTS	Land and Land Improvements	Buildings and Improvements	Machinery and Appliances	Hand Tools and Petty Equipment	Furniture and Fixtures	Library and Reference Books	Scientific Apparatus	Linen Silver China	Stores New Supplies	TOTAL
RECEIVING HOSPITAL	324502.15	376250.44	102511.09	46652.01	62079.34	652.07	10081.45		36798.23	959526.78
ANNEX HOSPITAL		194368.90	11495.14	1492.52	19525.63	53.05			38053.22	264988.46
TERRILL & CROCKETT HOSPITAL		1497495.52	64210.52	20462.76	69445.31	1526.00			3940.29	7831.48
BYRAM, CB, PAVILLION & STOREKEEPERS OFFICE	294714.73	10224.96	18165.82	9903.77					965.14	333974.42
RESIDENCES & COMMISSARY	1080986.00	24370.07	1010.65	99769.20					3695.64	86965.42
POWER HOUSE	358967.10	113996.13	4809.61	2041.75					27978.95	507793.54
PHYSICAL PLANT	284519.08	58573.41	3544.14	618.65	12.73				7247.63	354515.69
STEAM TUNNEL	110723.39									110723.39
CHAPEL	42000.00	89.00			2579.00					44668.00
TOTAL	324502.15	4240025.16	385470.32	96137.51	265962.65	2243.85	10081.45	8601.07	204874.98	5537899.14



Galen State Hospital

R. F. D. NO. 1—GALEN
DEER LODGE, MONTANA 59722

TEL: (406) 693-2281

PATIENT ACCOUNT
BALANCE SHEET
JUNE 30, 1975

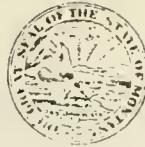
ASSETS

Cash on Hand	\$ 50.00
Deer Lodge Bank & Trust	60,456.51
Personal Accounts	<u>60,456.51</u>
Other - (Donations, etc)	<u>7,582.78</u>
TOTAL ASSETS	<u>\$68,089.29</u>

LIABILITIES

Due to Residents:	
Active	\$53,881.90
Inactive	6,574.61
Funds held for benefit of Residents ¹	<u>7,632.78</u>
TOTAL LIABILITIES	<u>\$68,089.29</u>

¹ See attached schedule of funds held for benefit of residents.



Galen State Hospital

R. F. D. NO. 1 — GALEN
DEER LODGE, MONTANA 59722

TEL: (406) 693-2281

FUNDS HELD FOR BENEFIT OF RESIDENTS AS OF JUNE 30, 1975

Kathy Maddock Memorial	
Earmarked for Inservice Training	\$ 65.30
Patient Recreation Fund	3,489.05
Veterans Fund	124.81

CANTEEN FUNDS

Custodial Men's Fund	433.02
Custodial Women's Fund	576.75
Byram Boy's Fund	1,711.76
Byram Girl's Fund	<u>1,232.09</u>
TOTAL	<u>\$7,632.78</u>

COMBINED STATEMENT OF REVENUE - BUDGET AND ACTUAL
Page 25

Comment:

As reported on the SBAS, the Budget column for this statement should be:

Rental Housing Income	\$17,500
Land Lease Income	290
Interest Income	
Miscellaneous Duplicating	-----
 TOTAL	\$17,790

COMBINED STATEMENT OF EXPENDITURES
COMPARED WITH APPROPRIATIONS
Page 26

Comments:

The auditor has broken the appropriations down according to expenditure identification thus showing expenditures in excess of appropriations in nine areas. The breakdown of appropriations by expenditure I.D. on SBAS is purely a management tool to monitor program budgets of operation. State law mandates expenditure by program and appropriations. In no case are expenditures allowed to exceed appropriations and in fact they do not.

We feel Exhibit C is misleading, thereby we have reconstructed that exhibit to correspond with authorizations as per State law. That reconstruction follows on the next page.

GALEN STATE HOSPITAL
 ALL FUNDS
 STATEMENT OF EXPENDITURES
 COMPARED WITH APPROPRIATIONS
 FISCAL YEAR ENDED JUNE 30, 1975
Exhibit C

	<u>1974-1975 APPROPRIATIONS</u>	<u>BUDGET AMENDMENTS</u>	<u>TOTAL AVAILABLE</u>	<u>EXPENDITURES</u>	<u>UNEXPENDED BALANCE</u>
<u>General Fund</u>					
Administration	\$ 113,006	\$ 12,053	\$ 125,059	\$ 123,531	\$ 1,528
Care and Treatment	669,866	236,925	906,791	839,892	66,899
General Services and Physical Plant	561,328	128,057	689,385	677,320	12,065
Alcoholism Services	<u>-0-</u>	<u>509,533</u>	<u>509,533</u>	<u>507,820</u>	<u>1,713</u>
 TOTAL GENERAL FUND	 <u>\$1,344,200</u>	 <u>\$886,568</u>	 <u>\$2,230,768</u>	 <u>\$2,148,563</u>	 <u>\$82,205</u>
<u>Federal Revenue Sharing (FPRA)</u>					
Administration	\$ 35,920	\$ -0-	\$ 35,920	\$ 35,245	\$ 675
Care and Treatment	475,000	-0-	475,000	474,994	6
General Services and Physical Plant	475,000	-0-	475,000	474,995	5
Alcoholism Services	<u>-0-</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-0-</u>
 TOTAL REVENUE SHARING	 <u>\$ 985,920</u>	 <u>\$ 20,000</u>	 <u>\$1,005,920</u>	 <u>\$1,005,234</u>	 <u>\$ 686</u>

Agency Notes

1. Unrecorded Liabilities

As of November 30, 1975, there are expenditure accruals of \$1,349.11 unrecorded at June 30, 1975.

2. Accounts not on Statewide Budgeting and Accounting System

The cash in the agency fund represents primarily cash held in trust for the residents of Galen State Hospital. This cash and the corresponding liability are not recorded in the statewide budgeting and accounting system, but have been reflected in the financial statements for reporting purposes.

COMMENTS AND RECOMMENDATIONS

CASH IN BANK

Comment: The Legislative Auditor has requested an opinion from the Attorney General as to the proper depository for institutional residents' monies. There is a question whether their monies meet the definition of State funds (Section 82A-204, R.C.M. 1947) or public funds (1972 Constitution, Article VIII, Section 13) and therefore whether they may be deposited in a State Treasury account. The Board of Investments has advised the Department that they are not authorized to invest individual resident funds.

Also, internal control procedures over cash in the patient accounts are adequate as stated by the auditor, therefore the absence of recording the financial activity of this fund in SBAS does not preclude presenting such activities in the financial statements. Thereby the agency has prepared an Agency Fund Balance Sheet and a Statement of Changes in fund balance for submission with this response.

Recommendation - Page 7 and 8

We recommend that the hospital:

1. Request that the Department of Administration establish an agency fund to account for the deposit of monies belonging to hospital patients.
2. Deposit all patient monies into the State Treasury account established within the agency fund.

The Department is awaiting the Attorney General's opinion before formulating policy and procedure for handling patient accounts. Also see comments above.

DECEASED PATIENTS' MONIES

Recommendation - Page 8

We recommend that the hospital comply with the directives from Social and Rehabilitation Services regarding deceased patients' Social Security monies.

Procedures for disposing of deceased patients' monies from whatever source derived, including Social Security monies, will be established in coordination with the Department's attorney. Also the Department attorney will assist the Department in seeking the repeal of Section 38-201, R.C.M. 1947, in the next legislative session as this statute appears to be in conflict with the New Uniform Probate Code.

CASH ON HAND

Comment: It should be noted that Galen is located about 15 miles from the nearest source of cash for change and also that the amounts involved are very small. The crafts fund, for example, has receipts of approximately \$40 to \$50 per month. In addition the change fund maintained in the Business Office belongs to the pop machine vendor and is provided by him as a change fund for the institution. In establishing policy for change funds the materiality and number of transactions as well as the distance from business areas and limited staff must be considered.

Recommendation - Page 9

We recommend that the hospital:

1. Maintain one change fund at the Alcoholism Treatment Center.
2. Receive cash from the Alcoholism Services Center on a regular timely basis and a receipt be obtained and filed by the Alcoholism Treatment Program.
3. Make deposits on at least a weekly basis or when the amounts collected exceed \$100 (see Montana Administrative Manual, Section 2:1200.20, Volume II).

Only one change fund will be maintained at the Alcoholism Treatment Center. Cash will be received from the Alcoholism Services Center on a regular, timely basis and a receipt will be issued for filing by the Alcoholism Treatment Program. All funds will be deposited on a weekly basis or when the amounts collected exceed \$100.00.

PERSONAL SERVICES

Recommendation - Page 12

1. Require a daily record of hours worked by each employee and that these be signed by the individual employees' supervisor and the payroll summary be signed by the department head.

The hospital will require a daily record of hours worked by each employee and these records will be signed by the employee's supervisor. The payroll summary will be signed by the department head.

2. Separate the functions of payroll preparation and warrant distribution.

The separation of payroll preparation and warrant distribution would pose a problem due to limited personnel. However, Galen will begin a payout procedure by selection of sample departments and requiring the individuals to sign the warrant transfer listing already prepared by central payroll when the warrants are issued.

This check will be on an unscheduled basis to test the possibility of fictitious names existing on the payroll. The program will be under the direction of the hospital administrator.

The present system of establishing an employee on the payroll reduces the chances of a fictitious person being "employed". The present requirement of the SBAS and central payroll require authorized signatures on all documents establishing an employee on the payroll. The State's system of position control also has many checks and balances built in for internal control purposes.

Comment: At one time the highest turnover rate was within the first month of employment. There was an added burden on PERS personnel and on an understaffed section of the hospital to follow the set procedures. It was a common understanding between PERS and the Galen State Hospital that the procedure used at the time would be adequate.

3. Deduct PERS contributions from the first day of employment for each individual.

Galen is complying with PERS regulations in that employees are charged from their first day of employment. The Department is studying the efficiency of the regulations as they pertain to institutions. In cooperation with PERS a change to Section 68-1601 and 68-1602 may be requested.

4. Accrue sick leave in accordance with legal and regulatory requirements.

The Department of Institutions discussed the continuation of the monthly sick leave recording system with the Department of Administration when the Montana Administrative Manual 1-0304.74 first appeared. Since the clerical requirement would be so overburdening, the Department of Administration agreed that the Department of Institutions should continue to accrue 12 days per year as was required by law on a monthly basis. They also indicated that the management memo addressed itself to a computerized process (.374 days sick leave/hour worked) which eventually they planned to assume.

The Department still cannot impose this requisite on the institutions. With the employees budgeted in the payroll function, changing to a biweekly recording would still be an undue burden. For Galen State Hospital this is a manual process which involves a minimum of 290 employees.

Comment: All information and authorizations related to employees is maintained at the institution, including payroll status forms to change any information regarding employees (exemptions, rate changes, address changes, and so on). These forms have been filed with the payroll which reflects such change. Also at the date of change the employee's summary card is updated. The source document is not the rate schedule provided by the State, but rather the payroll status form. The institution and the Department believe there is a clear audit trail to verify the propriety of rates.

5. Keep signed payroll rate increase authorizations in employee personnel files.

All payroll authorization forms will be filed in employee personnel files, following completion of the payroll reflecting such change which includes verification that the change has been correctly recorded on the payroll.

We recommend that the Department of Administration and State Auditor's office change the Central Payroll Division's procedures in order to effect a more realistic deadline for submission of payroll information in order to eliminate estimated payroll preparation by State agencies.

This recommendation addresses the Department of Administration and the State Auditor's Office.

EXPENDITURES

Recommendation - Page 13

We recommend the hospital:

1. Include documentation on travel vouchers as to the choice of vehicle whenever a private vehicle is used in conducting State business.

Proper documentation as to the choice of vehicle whenever a private vehicle is used in conducting State business will be included on travel vouchers.

2. Require that invoices for local purchases be approved and initialed for payment by someone other than the storeskeeper.

The hospital administration does not feel this is a problem. Due to the limited numbers of people assigned to the storekeeping and receiving process, this is the most economical manner to accomplish the task. In order to completely comply with the recommendation an additional staff member would be required.

In addition, the local purchases mentioned by the auditor are either minor purchases required immediately by the institution or perishables. Local purchases are authorized prior to purchase by a department head and the storekeeper only initials the invoices to acknowledge receipt of the items. The person who authorizes the payment of the claim is the department head and assumes the responsibility of verifying that all the proper documentation and signatures are collected before payment of the invoice.

FIXED ASSETS

General Comments: Since the institution has observed an annual physical inventory and perpetual records are maintained, the institution has prepared a Statement of General Fixed Assets and a Schedule of General Fixed Assets by Location which are included with this response.

On an overall basis, the Department has encountered many of the same comments and recommendations from auditors in other institution audits. The Department realizes that the design of a fixed asset management system is needed institution-wide, but also believes that some of the control procedures recommended in the various audits are in fact more stringent than those required of businesses and are unrealistic to implement in institutions. The primary objective of the institutions, and hence of the Department, is the care and custody of institution residents. Thereby, budget priorities have always been aimed at that objective including hiring personnel suited to fulfilling that chief function. Therefore, in devising and coordinating fixed asset control procedures within the institutions such personnel must not be tied down to filling out forms and taking care of unnecessary "red tape". The costs involved in implementing and maintaining such procedures must be considered in relation to the benefits to be derived therefrom. The institutions through decades of attempting to meet their primary objective and minimizing costs have not concentrated on detail procedures in other areas, beyond an annual inventory of fixed assets for instance. Therefore, as resources permit, the Department will consider the total system of managing fixed assets in the institutions including the areas of concern expressed in the institution audits. While the auditors' comments and recommendations are greatly appreciated and will be helpful in devising procedures for such control, the Department is concerned that the system implemented assure adequate control over fixed assets while being cognizant of the institution's primary objective and hence the constraints upon activities with lower priority; while at the same time such a system must safeguard the major resources at the institution and assure flexibility and ease of implementation and maintenance.

Specific Comments: The materiality of fixed asset items must be taken into account when specific identification is required. According to Management Memo 70-17 on Property Management, no item with a value under \$100 need be recorded as a fixed asset. Notation of specific location of assets on the perpetual records on a day to day basis would be an extremely prohibitive and unrealistic task for the institutions. Again the costs of such controls versus their benefits must be taken into consideration.

The materiality of items being disposed of must be considered. Although the institution has not formally recorded internal transfers, the authority to transfer assets is vested in the Department supervisors.

The capital items in private residences are located in residences on grounds. The privately owned items must be recorded in order to maintain accountability for residents' properties.

We recommend that the hospital:

1. Implement a number system to provide specific identification of individual capital items.

The Department of Administration is presently in the process of preparing guidelines for property management. A portion of the guidelines are reportedly addressing a statewide system of numbering fixed assets; the institution and Department are awaiting further detail regarding the Department of Administration's proposals. See also comments above.

In the meantime the institution is preparing the annual physical inventory and is affixing permanent identification to individual items.

2. Establish schedules to provide an objective indication of age, estimated useful life, and value of an item to aid in determining whether or not its disposition is reasonable.

During the annual physical inventory the usefulness of fixed assets will be assessed. If a fixed asset is operable and useful to the institution, its disposition and/or replacement is dependent upon adequate budget appropriations for such replacement.

Perpetual records will be maintained and will include (1) class code; (2) sequence or payment voucher number; (3) date of acquisition; (4) name and address of vendor; (5) abbreviated description; (6) department, division, and unit charged with custody; (7) location; (8) cost; (9) fund and account from which purchased; (10) method of acquisition; (11) estimated life, and (12) date, method and authorization of disposition.

It should be noted that although location will be recorded at the time of acquisition and updated following the physical inventory, the Department and the institution believe that it is impractical and unrealistic to revise the location on a day to day basis. With specific identification of items and the use of an addition - deletion sheet at inventory to record changes per area, the reconciliation of transfers will provide adequate control.

3. Obtain authorization and update the records prior to transferring property from one location to another and secure written acknowledgement from the transferee that the transaction actually has occurred.

Procedures will be studied regarding control of transfers within the institution, taking into consideration the cost of such controls and the benefits. The materiality of the items transferred will also be considered. The study will include consideration of the ABC inventory method as a reasonable means of implementing control based on materiality. Also see response above regarding location.

4. Account for all discrepancies between beginning and ending inventories. Remove all cards for items disposed of and keep in a separate file. Reconcile physical inventories to capital records.

Discrepancies in the inventory have always been accounted for; reconciled discrepancies have always been reported by functional area on the addition - deletion sheet (See response to Recommendation 2 above) and material discrepancies analyzed by the business manager and the hospital administrator, though this analysis has not always been documented. In the future a notation of such reconciliation will be included on the report. Separate files are kept for all items deleted from the inventory.

5. Establish a dollar value and physical count for all property, plant, and equipment currently on hand, and develop a journal entry to place this on the books to be incorporated into SBAS when the system has developed such capability. Such accounts should be updated as acquisitions and dispositions occur.

When the SBAS program is implemented by the Department of Administration the journal voucher will be prepared, and the accounts will be updated per their instructions. Until that time, the agency has maintained manual records of its general fixed asset group and has prepared a statement of general fixed assets which is enclosed with this response.

6. Implement an effective system for all dispositions of fixed assets.

When the annual inventory of capital items is completed, a surplus list will be prepared and submitted to the Purchasing Division to be included with their list of surplus state properties. Disposition of the items will be entered on the cards and filed in the separate "deleted inventory" file.

As before discussed, the materiality of the item and budgeted replacement monies will be considered in devising and implementing such a system for disposition of fixed assets.

7. Ensure proper examination and authorization of invoices for payment by someone other than the storeskeeper.

Most capital items are ordered by formal Purchase Orders. The procedure is as follows: The administrator must authorize purchase requisitions. The Purchasing Department then places the order and prepares the purchase order. When the item is received the storekeeper checks the invoice with the purchase order and sends the invoice to the business office where it is again checked with the purchase order and the transfer warrant claim is prepared. The claim is submitted to the authorized person for approval.

Attached to the claim is the purchase order and the invoice.

Because there is separation of the duties of purchasing, receipt and safekeeping of items, and maintenance of perpetual records and payment for purchases, the hospital administration feels that sound internal control exists on these items.

8. Implement written policies and agreements with employees entrusted with State property for their private use and acknowledgment of receipt of such property.

The hospital has asked the Department's attorney to draw up a rental agreement that will include an inventory of all state property on the premises at the time and this will be checked and certified at the termination of the agreement.

9. Delete privately-owned items from the records.

There has to be accountability for privately-owned property belonging to a resident of the institution. Accountability for these items is necessary to 1) identify items not listed in the Institution's inventory of general fixed assets and 2) assure that upon the residents' leaving the institution all and only their own personal belongings are in their possession. Such property will be identified as private property and records will be maintained separately from the rest of the inventory records.

We recommend that the Governor's Office of Budget and Program planning establish more realistic guidelines for budget preparation, providing the flexibility required by agencies in order to bring budgetary estimates into better alignment with their actual needs.

This recommendation is addressed to the Governor's Office of Budget and Program Planning.

INVENTORIES

Recommendation - Page 17

We recommend that the hospital:

1. Discontinue the practice of preparing requisitions from invoices.

All materials picked up by teamsters will have an authorized requisition prepared before the item can be picked up. These items will be reviewed and verified by the storekeeper prior to delivery to the ordering department by the teamsters. The department head will sign the requisition as being received and submit the documents through the regular channels. This system has been used in some areas of the institution, henceforth will be mandatory institution-wide.

2. Establish a central storeskeeping system and a facility for all inventory items, removing the distribution function from control of those who use the items.

The Department and the institution will cooperate to develop a system for controlling inventories and separating functions of distribution and control from use in the space presently available. In 1969, Phase I of the service complex was completed. The original plans call for the service complex to be constructed in three phases. The institution feels this is a much needed facility and agrees with the auditor that a central storeskeeping system of adequate size would greatly improve control over all inventories.

REIMBURSEMENTS

Comments: Since our response (page 122) in the Warm Springs State Hospital audit report embraces the reimbursement function totally within the Department, we will reiterate our intent for the purposes of this report.

The Department of Institutions has administratively created a Reimbursement Bureau which is currently operating a revenue process. The Department has delegated its authority to assess, collect and process per diem and ancillary medical service charges for the care and treatment of resident patients in six institutions and community facilities to this Bureau.

Authority to operate such a revenue function is contained in Section 80-1601 and 80-1603, R.C.M. 1947.

The Department is currently analyzing the reimbursement function to develop greater potential for collecting reimbursable costs. This analysis includes plans for development of an automated, teleprocessing reimbursement system for which funding was appropriated by the 44th Legislative Session.

To correct the deficiencies noted in this audit report as well as in our own self-analysis, the Department is responding to noted exceptions by formally stating its intent to aggressively pursue the analysis and subsequent strengthening of the reimbursement function by:

1. Establishing objective and accurate cost allocation techniques which reflect the true and complete cost of care and medical services in our facilities. The basis for these allocations will be the Statewide Budgeting and Accounting System, cost center findings related to professional fees and ancillary charges and analytical data derived from the Montana fee schedule. Essentially, cost data would be SBAS cost information, depreciation costs accumulated by Medicare/Medicaid cost centers and a cost allocation among cost centers.
2. Developing, articulating and promulgating among our facilities a new reimbursement policy which reflects and enhances the intent of state, federal and departmental regulations.
3. Clarifying through administrative policies the proper separation of responsibility for cost determination, billing and collection functions and establishing an accountability system among the organizational components.

4. Development of a total system approach with maximum utilization of automated cost data, accounting and billing functions. The computerized reimbursement system will allow the Department periodic and inquiry access to admission, financial, movement status and treatment information for each individual patient, each facility and each staff member as well as for the total Department.

The automated system will allow timely access to such information as well as the capacity to store such information in maximum security until all attempts at collection have exhausted.

Recommendation - Page 18

We recommend that the Department of Institutions disclose reimbursements collected as revenue for the individual institutions and allocate the collection costs to the institutions in the Statewide Budgeting and Accounting System.

The Department of Institutions does disclose reimbursements recorded as revenue for the individual institution in their SBAS reports. The Department prepared and presented a General Fund Schedule of Reimbursement Receipts by Institution in the agency response to the recent Central Office Audit. The Galen State Hospital Reimbursement receipts for the year ending June 30, 1975 were \$1,075,867.25.

Because the Department of Institutions has legal authority to collect and assess, and the monies are appropriated to the Department for that function, the operational cost associated with the function is disclosed in the Department's reports. The institution has no appropriation to charge for such costs and authorization for such charges would require legislative action.

UNBILLED SERVICES

Recommendation - Page 18 and 19

1. We recommend that the hospital evaluate on a semiannual basis the drug reimbursement possibility and inform the Department of Institutions of doctors' visits to patients which are reimbursable.
2. We recommend that the Department of Institutions bill the Medicaid and Medicare programs for doctors' visits and for drugs when it becomes feasible for such reimbursement.

The hospital, in conjunction with the reimbursement bureau will evaluate the possibility of drug reimbursement. The reimbursement bureau has informed the hospital that they have evaluated the reimbursement for doctor's visits and are awaiting clarification from the "third party carrier" (Blue Cross of Montana) as to the final requirements and justification needed.

PRIVATE BILLINGS

Recommendation - Page 19

We recommend that the Reimbursement Bureau have clear-cut evidence that a financial examination of all patients has been performed and kept in a permanent file kept on each patient.

Such information will be introduced into the files as standard operating procedure with the implementation of the new reimbursement system. See also comments above.

BUILDING STANDARDS

Recommendation - Page 20

We recommend that the hospital review the feasibility of making the capital improvements needed to qualify uncertified buildings for Medicaid and Medicare requirements.

The decision not to update the facilities to meet the standards was not the hospital administration's only. The Department of Institutions and the Architecture and Engineering Bureau of the Construction and Maintenance Division of the Department of Administration were consulted and they recommended these improvements not be made. The estimated cost of \$140,000 quoted by the auditor was solely to put the Byram Building in compliance with life safety codes and would still not allow certification of the facility at any level of care for third party reimbursement purposes. Also, with the proposed improvements to the building the number of patients would have had to be reduced from 31 men to 25 men. This reduction of patients would immediately reduce the forecasted reimbursement income figure of \$12,694.81 as quoted in the auditors' comments. The Legislature during the last budget hearing expressed their intent that the retarded patients that occupy this building would be placed in the local communities and that the Byram Building would be discontinued as a patient area. With this knowledge of the Legislature's intent it did not seem justifiable to expend state funds to update a structure that was to be taken out of service in a short period of time. This action would then thereby reduce the forecasted reimbursement income to zero.



THOMAS L. JUDGE, Governor

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
 DIRECTOR'S OFFICE
 MITCHELL BUILDING
 HELENA, MONTANA 59601

February 11, 1976

Mr. Morris L. Brusett
 Legislative Auditor
 Office of the Legislative Auditor
 State Capitol
 Helena, Montana 59601

FEB 11 1976

MONT. LEGISLATIVE AUDITOR

Dear Mr. Brusett:

In response to your February 6, 1976, letter, the Department of Administration is replying to the following recommendation included in the audit report on the Galen State Hospital:

Recommendation

We recommend that the Department of Administration and State Auditor's Office change the Central Payroll Division's procedures in order to effect a more realistic deadline for submission of payroll information in order to eliminate estimated payroll preparation by State agencies.

Previous discussion of a similar recommendation contained in the audit report of the Warm Springs State Hospital demonstrated that State law would have to be modified before any extension of the payroll processing procedures could be considered. The total time requirements will depend on the amount of cost allocation that is ultimately included in the system.

The Central Payroll Division has committed an extensive effort to establish and maintain the current schedule. This schedule allows corrections to be made any time prior to Wednesday noon. The limited number of corrections required does not support the contention that the system is highly undesirable and inefficient.

Sincerely,

Jack C. Crosser
 Jack C. Crosser
 Director



STATE OF MONTANA

OFFICE OF
E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
INVESTMENT COMMISSIONER
CENTRAL PAYROLL SYSTEM

HELENA, MONTANA 59601

February 11, 1976

FEB 11 1976

Mr. Morris L. Brusett
Legislative Auditor
State of Montana
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Brusett:

Attached are our written comments to the portion of the audit report of Galen State Hospital which addresses one recommendation to the Central Payroll Division of the State Auditor's Office.

E. V. "SONNY" OMHOLT
State Auditor & Ex Officio
Commissioner of Insurance

By:

Dr. Sellen
Administrator, Central Payroll Division

Attach.

RECOMMENDATION:

We recommend that the Department of Administration and State Auditor's Office change the Central Payroll Division's procedures in order to effect a more realistic deadline for submission of payroll information in order to eliminate estimated payroll preparation by State agencies.

- - - - -

The present State Central Payroll System has been and is an after-the-fact payroll. That is, salary warrants are not released until after the end of the pay period and only after the salary has been earned in full. This meets fully the recommendation of the 1968 Legislative Auditor's Report in which a centralized payroll function was recommended.

However, as we understand the above recommendation, you are proposing that personnel time distribution be completed prior to processing payroll. It is only necessary to know the rate of pay, the number of hours worked, and source of funding in order to pay an employee. This can be accomplished within the present payroll procedures. To provide for complete personnel time distribution prior to payroll processing is more difficult. This subject has been discussed and evaluated many times in the past as it is recognized that the personnel time distribution prior to payroll processing is highly desirable.

The present payroll processing schedule has been established so that the statutory time period allowed for payroll processing can be met. Section 25-507.2 states:

"The state central payroll system may provide for fixing of payroll periods and designate days of the month on which salaried employees shall be paid for the preceding payroll period. Such pay date shall be uniform for all employees of each state agency employed in the same geographic area and shall not be more than ten (10) calendar days following the close of the payroll period."

To meet this statutory time element, the following schedule has been used successfully since the establishment of the central payroll program.

Monday Noon: Agency payroll data is due in Central Payroll office. Payroll data is coded by Central Payroll and sent to the Data Processing Division of the Department of Administration for data entry.

Tuesday Afternoon: Corrections are made to estimated time submitted by the agencies which would result in wage overpayments.

Tuesday Evening: Payroll processing is initiated to edit data submitted by the agencies and keypunched by Data Processing.

Wednesday Noon: Corrections are allowable to avoid overpayment of wages because of estimated time submitted by the agencies.

Wednesday Evening: Payroll processing is completed and payroll warrants are written.

Thursday Morning: Data Processing Division releases the written payroll warrants and the respective warrant register to the State Auditor's Office for signing and verification after which time the warrants are available for release to the agencies for distribution.

At the present time, most employees in the Helena area are paid on Thursday and employees within the range of one-day mail service receive their warrants on Friday but employees in remote areas do not receive their warrants until the following Monday. Monday is the tenth day following the close of the payroll period.

We have found no way in which to pay all employees and allow full personnel time distribution prior to payroll processing. From past evaluations, there appears to be only two ways in which this problem can be successfully accommodated.

1. Make a statutory change to allow more time for processing the payroll. This would allow full personnel time distribution prior to processing payroll. The employees would then receive their warrants several days later.
2. Use the payroll system to process payrolls and process personnel time distribution as a separate function.

Incorrect estimation of an employee's time can be corrected before payroll warrants are written to prevent overpayment of wages. Such corrections are an integral part of payroll processing. Also, a payroll warrant issued to an employee which would result in an overpayment of wages can be withheld from that employee and cancelled. Emergency all-purpose warrant procedures or agency revolving cash funds are utilized if an employee is grossly underpaid.

The payroll clerk at the Galen State Hospital does begin the preparation of payroll data before the end of the pay period. However, completion of this data is delayed until the day the pay period ends when exceptions to estimated time are recognized before the data is submitted to the Central Payroll Division. This system has been effective in that this state agency has not cancelled a payroll warrant for calendar years 1974 and 1975.

Finally, a computerized time reporting and payroll preparation system is being installed at Warm Springs State Hospital which will alleviate the problems connected with employee time estimation. Central Payroll Division and the programming staff of the Data Processing Division assigned to the payroll system have worked closely with hospital personnel and IBM personnel during installation. Implementation will involve a period of time for parallel testing. Problems or system breakdowns can be overcome by alternative emergency measures.

Office of the Governor

Budget and Program Planning

Capitol Building · Helena, Montana 59601

APPENDIX 4Thomas L. Judge
GovernorMichael G. Billings
Director

February 11, 1976

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

FEB 11 1976

AUDITOR

Gentlemen:

We have reviewed the section of the audit report prepared by Dobbins, McGrew and Malone, C.P.A. on Galen State Hospital which addresses a recommendation to the Office of Budget and Program Planning.

Thank you for the opportunity to respond. Our written comments are attached.

Sincerely,



Michael G. Billings
Director



Recommendation page 16:

We recommend that the Governor's Office of Budget and Program Planning establish more realistic guidelines for budget preparation, providing the flexibility required by agencies in order to bring budgetary estimates into better alignment with their actual needs.

Response:

The auditors expressed concern that items purchased bore little resemblance to those itemized in the original budget request, and that the budgeting system allows substitution of funds appropriated for another expenditure classification.

The Executive Budget is prepared in accordance with the principles of program budgeting as suggested in Senate Resolution Twenty-Seven, passed by the Forty-First Legislature.

Although a program budget is developed by summing the detail in each expenditure category, funds are not appropriated by expenditure classification or by line items, but by total program, so that flexibility does exist to deal with priority changes. It is the responsibility of agency managers to operate programs within the appropriation limits.

The audit recommendation appears to suggest that either more control be exerted by the Office of Budget and Program Planning to ensure that agencies actually purchase the items listed in the original budget request or that the agencies not be required to submit our itemized list of equipment purchases. Agencies are required to make expenditures in accordance with a budget approved by the Budget Director, however, the Office of Budget and Program Planning has no authority to control purchases within approved spending limits. Moreover, control of line item expenditures by the Office of Budget and Program Planning would violate the principles of program budgeting and undermine the responsibility of program managers. On the other hand, although it would appear desirable to allow a lump sum of money to purchase equipment items as needed, the legislature has historically requested detailed substantiation of equipment budget requests within the program budget.

The Office of Budget and Program Planning is required by House Bill 643 as passed in the 44th Legislature, to implement a program planning and budgeting system among representative agencies. This system will enable the legislature to make informed decisions on budget requests based on more relevant information pertaining to the purposes, objectives and accomplishments of state programs. It is expected that this system when fully operational will address the problem sited by the auditors.

